

CITY OF OSAGE
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steven Cooper	Mayor	Jan 2008
Laurie Boehmer*	Council Member	Nov 2007
Rick Bodensteiner+	Council Member	Nov 2007
Brian Adams	Council Member	Jan 2008
Allan Smalley	Council Member	Jan 2008
Jim Werner	Council Member	Jan 2010
Don Breon	Council Member	Jan 2010
Cathy Penney	City Clerk	Jan 2008
Bev Miller	City Treasurer	Jan 2008
Richard Gross	City Attorney	Jan 2008
Jerry Dunlay	Director of Public Works	Jan 2008
Don Fox	Park Commissioner	Jan 2008
John Michels	Park Commissioner	Jan 2010
John LaCoste	Park Commissioner	Jan 2012
Johanna Anderson	Library Trustee	Jul 2007
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008
Brian Jones	Library Trustee	Jul 2011
Mary Ann Carmody	Library Trustee	Jul 2011
Kevin Kolbet	Library Trustee	Jul 2012
Herb Wright	Library Trustee	Jul 2012

*Joel Voaklander resigned 12-31-06, Boehmer appointed 1-2-07

+Kelvin Palsic resigned 1-3-07, Bodensteiner appointed 1-15-07

City of Osage

L **INES MURPHY & COMPANY, P.L.C.**

M Certified Public Accountants
625 Main St.
Osage, IA 50461-1307

Ph. 641-732-5841
Fax 641-732-5193

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's primary government financial statements listed in the table of contents. These primary government financial statements are the responsibility of the City of Osage's management. Our responsibility is to express opinions on these primary government financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the primary government financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the primary government financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall primary government financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

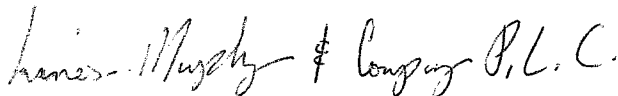
A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Legally separate entities are referred to as component units. In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

However, the primary government financial statements, because they do not include the financial data of component units of the City of Osage, do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Osage as of and for the year ended June 30, 2007, and its indebtedness at June 30, 2007, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2007 on our consideration of the City of Osage's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.



Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
December 10, 2007

City of Osage

City of Osage

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Osage provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's primary government financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 12.9%, or approximately \$321,000, from fiscal 2006 to fiscal 2007.
- Disbursements increased 2.4%, or approximately \$62,000, in fiscal 2007 from fiscal 2006.
- The City's total cash basis net assets increased 10.6%, or approximately \$400,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$145,000 and the assets of the business type activities increased by approximately \$255,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of primary government financial statements and other information as follows:

Management's Discussion and Analysis introduces the primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to primary government financial statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Required Supplementary Information further explains and supports the primary government financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and

results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and solid waste collections. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund, 5) the Permanent Funds, and 6) the 2006 Street Project. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required primary government financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

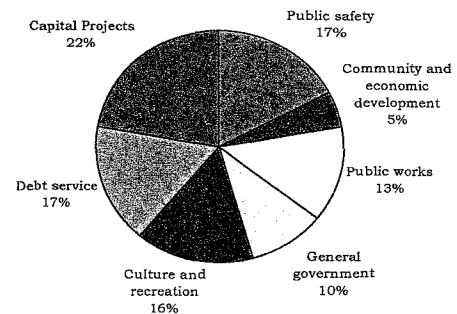
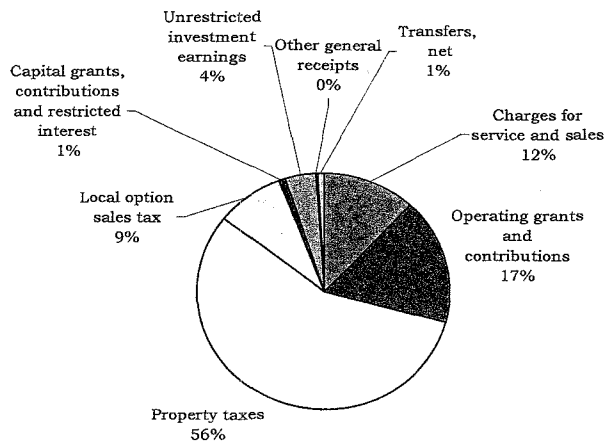
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, solid waste, and the utility project funds, considered to be major funds of the City.

The required primary government financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$2.486 million to \$2.631 million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 290	\$ 302
Operating grants, contributions and restricted interest	389	425
Capital grants, contributions and restricted interest	258	24
General receipts:		
Property tax	1,491	1,410
Local option sales tax	251	218
Grants and contributions not restricted to specific purposes	-	-
Unrestricted investment earnings	114	94
Other general receipts	10	9
Transfers, net	15	19
Total receipts and transfers	<u>\$ 2,818</u>	<u>\$ 2,501</u>
Disbursements:		
Public safety	\$ 440	\$ 451
Public works	400	352
Culture and recreation	422	413
Community and economic development	368	126
General government	218	257
Debt service	540	431
Capital projects	285	581
Total disbursements	<u>\$ 2,673</u>	<u>\$ 2,611</u>
Increase (decrease) in cash basis net assets	\$ 145	\$ (110)
Cash basis net assets beginning of year	<u>2,486</u>	<u>2,596</u>
Cash basis net assets end of year	<u><u>\$ 2,631</u></u>	<u><u>\$ 2,486</u></u>



The City's total receipts for governmental activities increased by 12.9%, or \$321,000. The significant increase in receipts was primarily the result of assessments for the 2006 Street Project in 2007.

The cost of all governmental activities this year was \$2.673 million compared to \$2.611 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$1.994 million because some of the cost was paid by those who directly benefited from the programs (\$290,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$389,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 359	\$ 352
Sewer	524	518
Solid waste	162	162
Capital grants, contributions and restricted interest	21	14
General receipts:		
Unrestricted interest on investments	42	30
Total receipts	<u>\$ 1,108</u>	<u>\$ 1,076</u>
Disbursements and transfers:		
Water	\$ 234	\$ 261
Sewer	448	431
Solid waste	156	165
Utility project	-	273
Transfers, net	15	19
Total disbursements and transfers	<u>\$ 853</u>	<u>\$ 1,149</u>
Increase (Decrease) in cash basis net assets	\$ 255	\$ (73)
Cash basis net assets beginning of year	<u>1,282</u>	<u>1,355</u>
Cash basis net assets end of year	<u><u>\$ 1,537</u></u>	<u><u>\$ 1,282</u></u>

Total business type activities receipts for the fiscal year were \$1.108 million compared to \$1.076 million last year. The cash balance increased by approximately \$255,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by 25.8% to a total of \$853,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Osage completed the year, its governmental funds reported a combined fund balance of \$2,631,714, an increase of \$145,372 above last year's total of \$2,486,342. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The 2006 Street Project Fund was established in 2006 to account for a major street project within the City. At the end of the fiscal year 2006, the cash balance was \$(258,909). The negative balance was the result of expenditures before assessments were collected. Assessments were collected in 2007, which restored 2006's deficit balance.
- The Tax Increment Financing Fund was established in a previous fiscal year to account for major urban renewal projects within the City's business and industrial districts. At the end of the fiscal year, the cash balance was \$384,632, a decrease of \$222,211 from the previous year. The decrease is a result of more capital outlay and transfers during fiscal year 2007.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$150,562 to \$756,504, due primarily to completion of the East Utility Project.
- The Sewer Fund cash balance increased by \$52,411 to \$657,685, due primarily to less costs associated with the Utility project.
- The Solid Waste Fund cash balance decreased by \$3,289 to \$123,247 due primarily to transfers to the General Fund for leaf pickup.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2007 and resulted in an increase in operating disbursements of \$13,871 related primarily to new capital projects within the city.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$1,940,000 in bonds and other long-term debt, compared to approximately \$2,610,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2007	2006
General obligation bonds	\$ 485	\$ 580
General obligation notes	70	480
Revenue bonds	1,385	1,550
Total	<u>\$ 1,940</u>	<u>\$ 2,610</u>

Debt decreased as a result of scheduled payments made and call of the Osage Manufacturing Note during the fiscal year.

The City continues to carry a general obligation bond rating of A33 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within

the City's corporate limits. The City's outstanding general obligation debt of \$555,000 is significantly below its constitutional debt limit of \$6.8 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Osage's elected and appointed officials consider many factors when setting the fiscal year budget. Property taxes and fees provide revenue stream necessary to provide services to the citizens of Osage at the level they have come to expect. Budget estimates are made each February to project expenditures and revenues for the next 16 months.

Property tax asking for fiscal year 2008 is \$179,720 less than fiscal year 2007, which is a 17.8% decrease. The decrease reflects reduction in Debt Payments to be made by the City in FY 2008. The Tax Increment Finance District continues to show an increase in property valuations and produces revenues for a variety of improvements and economic development opportunities. Water and Sewer rates are evaluated each summer. Rates were adjusted 2.5% in September 2007.

Projected revenues and expenditures are less for fiscal year 2008 than fiscal year 2007, due in large part to timing of capital projects. The 2006 Street Improvement Project was completed in September 2006, and there were no new capital projects during the summer of 2007. Plans are being prepared for a street paving project to begin in 2008. The Project will cover approximately 15 City blocks and include, concrete paving, curb and gutter and storm sewer work.

Russell Slight was hired as Police Chief in February and 2 new officers, Rick LaGue and Cory Johnson, joined the force in June. The Police Department now has 6 full-time officers. Planning continues for a new facility at the corner of 5th & Main to house the Fire Department and Police Department.

The Cedar River Recreation & Fine Arts Complex Board has seen tremendous progress over the last 12 months. The 13.5 million dollar capital campaign goal was reached and Recreation/Fine Arts building plans continue to be refined. Ground-breaking ceremonies have been held for the Event Center at the Fairgrounds and the School Bus Barn.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

Primary Government Basic Financial Statements

City of Osage

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

Functions / Programs:

Governmental activities:

Public safety	\$ 439,691
Public works	399,694
Culture and recreation	422,427
Community and economic development	368,506
General government	217,936
Debt service	539,631
Capital projects	285,069
Total governmental activities	<u>\$ 2,672,954</u>

Business type activities:

Water	\$ 234,453
Sewer	447,538
Solid waste	156,036
Utility Project	-
Total business type activities	<u>\$ 838,027</u>
Total	<u><u>\$ 3,510,981</u></u>

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Miscellaneous
 Transfers
 Total general receipts and transfers
 Change in cash basis net assets
 Cash basis net assets beginning of year
 Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Streets
 Urban renewal
 Debt service
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Exhibit A

Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
\$ 17,091	\$ 4,950	\$ -	\$ (417,650)	\$ -	\$ (417,650)
34,205	288,540	-	(76,949)	-	(76,949)
48,609	68,560	-	(305,258)	-	(305,258)
650	-	-	(367,856)	-	(367,856)
119,387	27,448	-	(71,101)	-	(71,101)
70,256	-	-	(469,375)	-	(469,375)
-	-	257,560	(27,509)	-	(27,509)
<u>\$ 290,198</u>	<u>\$ 389,498</u>	<u>\$ 257,560</u>	<u>\$ (1,735,698)</u>	<u>\$ -</u>	<u>\$ (1,735,698)</u>
\$ 358,718	\$ -	\$ -	\$ -	\$ 124,265	\$ 124,265
523,980	21,142	-	-	97,584	97,584
162,189	-	-	-	6,153	6,153
-	-	-	-	-	-
<u>\$ 1,044,887</u>	<u>\$ 21,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,002</u>	<u>\$ 228,002</u>
<u>\$ 1,335,085</u>	<u>\$ 410,640</u>	<u>\$ 257,560</u>	<u>\$ (1,735,698)</u>	<u>\$ 228,002</u>	<u>\$ (1,507,696)</u>
			\$ 824,356	\$ -	\$ 824,356
			474,680	-	474,680
			191,483	-	191,483
			251,215	-	251,215
			114,168	42,296	156,464
			10,168	-	10,168
			15,000	(15,000)	-
			<u>\$ 1,881,070</u>	<u>\$ 27,296</u>	<u>\$ 1,908,366</u>
			\$ 145,372	\$ 255,298	\$ 400,670
			2,486,342	1,282,138	3,768,480
			<u>\$ 2,631,714</u>	<u>\$ 1,537,436</u>	<u>\$ 4,169,150</u>
			\$ 386,230	\$ -	\$ 386,230
			384,632	-	384,632
			72,701	534,927	607,628
			11,964	-	11,964
			1,776,187	1,002,509	2,778,696
			<u>\$ 2,631,714</u>	<u>\$ 1,537,436</u>	<u>\$ 4,169,150</u>

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2007

	General	Special Road Use Tax
Receipts:		
Property tax	\$ 589,341	\$ -
Tax increment financing collections	-	-
Other city tax	28,877	-
Licenses and permits	6,424	-
Use of money and property	58,475	-
Intergovernmental	117,440	288,540
Charges for service	51,563	-
Special assessments	-	-
Miscellaneous	45,149	-
Total receipts	\$ 897,269	\$ 288,540
Disbursements:		
Operating:		
Public safety	\$ 437,380	\$ -
Public works	139,613	260,081
Culture and recreation	422,427	-
Community and economic development	278,756	-
General government	217,936	-
Debt service	-	-
Capital projects	-	-
Total disbursements	\$ 1,496,112	\$ 260,081
Excess (deficiency) of receipts over (under) disbursements	\$ (598,843)	\$ 28,459
Other financing sources (uses):		
Operating transfers in	\$ 561,904	\$ -
Operating transfers out	(21,619)	-
Total other financing sources (uses)	\$ 540,285	\$ -
Net change in cash balances	\$ (58,558)	\$ 28,459
Cash balances beginning of year	717,560	357,771
Cash balances end of year	\$ 659,002	\$ 386,230
Cash Basis Fund Balances		
Restricted	\$ -	\$ -
Reserved:		
Debt service	-	-
Unreserved:		
General fund	659,002	-
Special revenue funds	-	386,230
Capital projects fund	-	-
Permanent fund	-	-
Total cash basis fund balances	\$ 659,002	\$ 386,230

See notes to financial statements.

Exhibit B

Revenue		Capital Project	Other	
Tax		2006	Nonmajor	
Increment	Debt	Street	Governmental	Total
Financing	Service	Project	Funds	
\$ -	\$ 191,088	\$ -	\$ 205,624	\$ 986,053
474,680	-	-	-	474,680
-	394	-	251,731	281,002
-	-	-	-	6,424
19,212	5,759	-	47,385	130,831
-	-	-	-	405,980
-	-	-	11,027	62,590
-	17,211	257,560	27,609	302,380
19,324	53,045	-	35,869	153,387
<u>\$ 513,216</u>	<u>\$ 267,497</u>	<u>\$ 257,560</u>	<u>\$ 579,245</u>	<u>\$ 2,803,327</u>
\$ -	\$ -	\$ -	\$ 2,311	\$ 439,691
-	-	-	-	399,694
-	-	-	-	422,427
-	-	-	89,750	368,506
-	-	-	-	217,936
-	539,631	-	-	539,631
-	-	208,187	76,882	285,069
<u>\$ -</u>	<u>\$ 539,631</u>	<u>\$ 208,187</u>	<u>\$ 168,943</u>	<u>\$ 2,672,954</u>
<u>\$ 513,216</u>	<u>\$ (272,134)</u>	<u>\$ 49,373</u>	<u>\$ 410,302</u>	<u>\$ 130,373</u>
\$ -	\$ 227,401	\$ 209,536	\$ 311,374	\$ 1,310,215
(735,426)	-	-	(538,170)	(1,295,215)
<u>\$ (735,426)</u>	<u>\$ 227,401</u>	<u>\$ 209,536</u>	<u>\$ (226,796)</u>	<u>\$ 15,000</u>
\$ (222,210)	\$ (44,733)	\$ 258,909	\$ 183,506	\$ 145,373
606,842	117,434	(258,909)	945,643	2,486,341
<u>\$ 384,632</u>	<u>\$ 72,701</u>	<u>\$ -</u>	<u>\$ 1,129,149</u>	<u>\$ 2,631,714</u>
\$ -	\$ -	\$ -	\$ 11,964	\$ 11,964
-	72,701	-	-	72,701
-	-	-	-	-
-	-	-	-	659,002
384,632	-	-	782,225	1,553,087
-	-	-	243,141	243,141
-	-	-	91,819	91,819
<u>\$ 384,632</u>	<u>\$ 72,701</u>	<u>\$ -</u>	<u>\$ 1,129,149</u>	<u>\$ 2,631,714</u>

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2007

	Enterprise Funds				Total
	Water	Sewer	Solid Waste	Utility Project	
Operating receipts:					
Licenses and permits	\$ -	\$ 1,100	\$ -	\$ -	\$ 1,100
Charges for service	358,718	522,880	162,189	-	1,043,787
Miscellaneous	-	82	-	-	82
Total operating receipts	<u>\$ 358,718</u>	<u>\$ 524,062</u>	<u>\$ 162,189</u>	<u>\$ -</u>	<u>\$ 1,044,969</u>
Operating disbursements:					
Business type activities	<u>\$ 234,453</u>	<u>\$ 212,863</u>	<u>\$ 156,036</u>	<u>\$ -</u>	<u>\$ 603,352</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 124,265</u>	<u>\$ 311,199</u>	<u>\$ 6,153</u>	<u>\$ -</u>	<u>\$ 441,617</u>
Non-operating receipts (disbursements):					
Interest on investments	\$ 26,297	\$ 31,501	\$ 5,558	\$ -	\$ 63,356
Debt Service	-	(234,675)	-	-	(234,675)
Total non-operating receipts (disbursements)	<u>\$ 26,297</u>	<u>\$ (203,174)</u>	<u>\$ 5,558</u>	<u>\$ -</u>	<u>\$ (171,319)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 150,562</u>	<u>\$ 108,025</u>	<u>\$ 11,711</u>	<u>\$ -</u>	<u>\$ 270,298</u>
Other financing sources (uses):					
Operating transfers in	\$ -	\$ -	\$ -	\$ 55,614	\$ 55,614
Operating transfers out	-	(55,614)	(15,000)	-	(70,614)
Total other financings sources (uses)	<u>\$ -</u>	<u>\$ (55,614)</u>	<u>\$ (15,000)</u>	<u>\$ 55,614</u>	<u>\$ (15,000)</u>
Net change in cash balances	\$ 150,562	\$ 52,411	\$ (3,289)	\$ 55,614	\$ 255,298
Cash balances beginning of year	605,942	605,274	126,536	(55,614)	1,282,138
Cash balances end of year	<u>\$ 756,504</u>	<u>\$ 657,685</u>	<u>\$ 123,247</u>	<u>\$ -</u>	<u>\$ 1,537,436</u>
Cash Basis Fund Balances					
Reserved for debt service		\$ 401,646	\$ -	\$ -	\$ 401,646
Unreserved	756,504	256,039	123,247	-	1,135,790
Total cash basis fund balances	<u>\$ 756,504</u>	<u>\$ 657,685</u>	<u>\$ 123,247</u>	<u>\$ -</u>	<u>\$ 1,537,436</u>

See notes to financial statements.

City of Osage

Notes to Primary government Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Osage has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the Osage Municipal Utilities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These primary government financial statements present the City of Osage (the primary government) and exclude the component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

Component Unit

The Osage Municipal Utilities is a component unit of the City of Osage and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities and its operating budget are subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no known ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mitchell County Assessor's Conference Board, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, Mitchell County Joint E911 Service Board, and Cedar River Recreation and Fine Arts Complex.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate primary government financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The 2006 Street Project Fund is used to account for the current street project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

The Utility Project Fund is used to account for a sewer and water capital project on the east side of the City.

C. Measurement Focus and Basis of Accounting

The City of Osage maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City of Osage funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. treasury securities	<u>\$10,288</u>	<u>\$12,645</u>	<u>August 2019</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Bond 1999 Waste Water Treatment		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 95,000	\$ 19,977	\$ 20,000	\$ 2,568	\$ 170,000	\$ 62,513	\$ 285,000	\$ 85,058
2009	100,000	16,300	20,000	1,777	180,000	55,202	300,000	73,279
2010	70,000	12,270	20,000	988	190,000	47,373	280,000	60,631
2011	80,000	9,435	10,000	197	195,000	39,012	285,000	48,644
2012	85,000	6,075	-	-	205,000	30,237	290,000	36,312
2013-2014	55,000	2,420	-	-	445,000	31,618	500,000	34,038
Total	\$ 485,000	\$ 66,477	\$ 70,000	\$ 5,530	\$ 1,385,000	\$ 265,955	\$ 1,940,000	\$ 337,962

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer revenue bond sinking account to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$50,051, \$50,130, \$49,073 and respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$32,860
Compensatory	<u>5,363</u>
Total	<u>\$38,223</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency Levy	\$ 17,189
	Local Option Sales Tax	88,365
	Tax Increment Financing	182,690
	Employee Benefits	188,950
	Parks and Recreation	12,947
	Capital Projects:	
	Street Related	56,760
	Enterprise:	
	Solid Waste	15,000
	Permanent:	
	Hallingby Trust	3
		<u>\$ 561,904</u>
Special Revenue:	Special Revenue:	
Commercial Loan Project	Tax Increment Financing	\$ 19,324
Capital Improvement Revolving	General	\$ 4,000
Library Building and Equipment	General	\$ 17,419
Jaws of Life	General	\$ 200
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 25,122
	Tax Increment Financing	202,279
		<u>\$ 227,401</u>
Capital Projects	Special Revenue:	
2006 Street Project	Tax Increment Financing	\$ 186,310
	Capital Projects:	
	Street Related	23,226
		<u>\$ 209,536</u>
Street Related	Special Revenue:	
	Local Option Sales Tax	\$ 125,608
	Tax Increment Financing	144,823
		<u>\$ 270,431</u>
Enterprise:	Enterprise:	
Utility Project	Sewer	\$ 55,614
Total		<u>\$ 1,365,829</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$5,717 during the year ended June 30, 2007.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Component Units

Osage Municipal Utilities is a component unit of the City of Osage. It is not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 90,884
Billing services (bookkeeping)	18,000
Phone and internet	7,611
Miscellaneous	3,048
Total	<u>\$ 119,543</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$1,035,386
Donations in lieu of taxes	76,143
Bond principal and interest	53,045
Cable franchise fee	18,549
Miscellaneous	2,051
Total	<u>\$1,185,174</u>

(10) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2007, the City of Osage paid McNealy's Sanitation \$153,178. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(11) Economic Development

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest, payable at \$556 per month for July, August and September and \$741 per month for October thru June. The balance owed to the City at June 30, 2007 by OMI was \$126,665. The City provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with 1% interest payable at \$1,401 per month. The balance owed to the City at June 30, 2007 by A to Z Drying, Inc. was \$112,311.

The City also provided funds to small businesses along Main Street during fiscal years 2003-2007, under provisions of Chapter 15A of the Code of Iowa in the form of fifteen loans with no interest. The balance of the loans at June 30, 2007 is \$88,976, and payments are to be made on January 10th for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 1st of the fifth year.

In addition, the City has also provided funds to a small business outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest. The balance of this loan at June 30, 2007 was \$116,950 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

(12) Retiree Insurance

City employees who retire before the age of 65 continue to be eligible to participate in the City's health insurance plan. However, these retirees are required to reimburse the City 100% of the premiums.

(13) Housing Revenue Bonds

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$1,201,576 is outstanding at June 30, 2007. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

(14) Leases

The City leases property to others under a three year operating lease requiring fixed monthly payments of \$400 beginning July 1, 2000. The lease is renewable for up to 6 three-year contracts. At June 30, 2006, the lease had been automatically renewed for 3 years at the rate of \$461 per month.

Year ending June 30, 2007:

2008	5,532
2009	<u>5,532</u>
Total	<u>\$11,064</u>

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC) under a two-year renewable lease. The City of Osage will receive a payment of \$4,000 in 2007.

The City leases tower space to U.S. Cellular and Osage Municipal Utilities under five-year renewable leases. The City receives lease payments of \$1,200 annually from U.S. Cellular and received \$1600 from Osage Municipal Utilities due to an additional \$100 lease payment per month starting in March 2007. Payments in future years will total \$2,400 annually from OMU. Also, the City entered into a lease of property from Mayer's Digging Company. The City pays \$1 per year for the property.

(15) Commitments

As of June 30, 2007, the City had the following commitment with respect to the following project:

	<u>Remaining Commitment</u>	<u>Expected Date of Completion</u>
Cemetery mowing contract	\$ 21,250	December 31, 2007

(16) USDA Loan Guarantee

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year, respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare has paid the June 9, 2007 principal and interest payment.

City of Osage

Required Supplementary Information

City of Osage
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 986,053	\$ -	\$ -
Tax increment financing collections	474,680	-	-
Other city tax	281,002	-	-
Licenses and permits	6,424	1,100	-
Use of money and property	130,831	63,356	3
Intergovernmental	405,980	-	-
Charges for service	62,590	1,043,787	-
Special assessments	302,380	-	-
Miscellaneous	153,387	82	3,135
Total receipts	<u>\$ 2,803,327</u>	<u>\$ 1,108,325</u>	<u>\$ 3,138</u>
Disbursements:			
Public safety	\$ 439,691	\$ -	\$ -
Public works	399,694	-	-
Culture and recreation	422,427	-	-
Community and economic development	368,506	-	-
General government	217,936	-	-
Debt service	539,631	-	-
Capital projects	285,069	-	-
Business type activities	-	838,027	-
Total disbursements	<u>\$ 2,672,954</u>	<u>\$ 838,027</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 130,373	\$ 270,298	\$ 3,138
Other financing sources (uses), net	<u>15,000</u>	<u>(15,000)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 145,373	\$ 255,298	\$ 3,138
Balances beginning of year	<u>2,486,341</u>	<u>1,282,138</u>	<u>88,692</u>
Balances end of year	<u><u>\$ 2,631,714</u></u>	<u><u>\$ 1,537,436</u></u>	<u><u>\$ 91,830</u></u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 986,053	\$ 985,355	\$ 985,355	\$ 698
474,680	445,812	476,600	(1,920)
281,002	227,810	278,510	2,492
7,524	6,350	6,350	1,174
194,184	122,155	183,305	10,879
405,980	404,458	404,458	1,522
1,106,377	1,093,758	1,081,758	24,619
302,380	247,065	302,492	(112)
150,334	129,860	130,683	19,651
<u>\$ 3,908,514</u>	<u>\$ 3,662,623</u>	<u>\$ 3,849,511</u>	<u>\$ 59,003</u>
\$ 439,691	\$ 486,943	\$ 511,943	\$ 72,252
399,694	450,316	468,316	68,622
422,427	452,422	466,422	43,995
368,506	103,750	399,250	30,744
217,936	220,242	246,108	28,172
539,631	429,758	540,263	632
285,069	821,000	369,000	83,931
838,027	1,022,569	999,569	161,542
<u>\$ 3,510,981</u>	<u>\$ 3,987,000</u>	<u>\$ 4,000,871</u>	<u>\$ 489,890</u>
\$ 397,533	\$ (324,377)	\$ (151,360)	\$ 548,893
-	151,812	25,812	(25,812)
\$ 397,533	\$ (172,565)	\$ (125,548)	\$ 523,081
3,679,787	3,739,187	3,679,797	(10)
<u>\$ 4,077,320</u>	<u>\$ 3,566,622</u>	<u>\$ 3,554,249</u>	<u>\$ 523,071</u>

City of Osage

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$13,871 and budgeted receipts by \$186,888. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Osage
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2007

	Local Option Sales Tax	Forfeited Property	Employee Benefits	Emergency Levy	Special Jaws of Life
Receipts:					
Property tax	\$ -	\$ -	\$ 188,478	\$ 17,146	\$ -
Other city tax	251,216	-	472	43	-
Use of money and property	8,514	492	-	-	408
Intergovernmental	-	-	-	-	-
Charges for service	-	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	-	3,219	-	-	400
Total receipts	<u>\$ 259,730</u>	<u>\$ 3,711</u>	<u>\$ 188,950</u>	<u>\$ 17,189</u>	<u>\$ 808</u>
Disbursements:					
Operating:					
Public safety	\$ -	\$ 437	\$ -	\$ -	\$ 316
Community and economic development	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>\$ -</u>	<u>\$ 437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 259,730</u>	<u>\$ 3,274</u>	<u>\$ 188,950</u>	<u>\$ 17,189</u>	<u>\$ 492</u>
Other financing sources (uses):					
Operating transfers in	\$ -	\$ -	\$ -	\$ -	\$ 200
Operating transfers out	(239,095)	-	(188,950)	(17,189)	-
Total other financing sources (uses)	<u>\$ (239,095)</u>	<u>\$ -</u>	<u>\$ (188,950)</u>	<u>\$ (17,189)</u>	<u>\$ 200</u>
Net change in cash balances	\$ 20,635	\$ 3,274	\$ -	\$ -	\$ 692
Cash balances beginning of year	177,529	8,690	-	-	8,580
Cash balances end of year	<u>\$ 198,164</u>	<u>\$ 11,964</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,272</u>
Cash Basis Fund Balances					
Restricted	\$ -	\$ 11,964	\$ -	\$ -	\$ -
Unreserved:					
Special revenue funds	198,164	-	-	-	9,272
Capital project fund	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	<u>\$ 198,164</u>	<u>\$ 11,964</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,272</u>

See accompanying independent auditors' report.

Schedule 1

Revenue					Capital Projects	Permanent		
Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Capital Improvement Revolving	DARE	Street Related	Cemetery Perpetual Care	Ingeborg Hallingby Memorial	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,624
-	-	-	-	-	-	-	-	251,731
1,454	4,052	9,710	11,411	263	11,078	-	3	47,385
-	-	-	-	-	-	-	-	-
11,027	-	-	-	-	-	-	-	11,027
-	-	-	-	-	27,609	-	-	27,609
9,168	6,300	11,738	-	1,909	-	3,135	-	35,869
<u>\$ 21,649</u>	<u>\$ 10,352</u>	<u>\$ 21,448</u>	<u>\$ 11,411</u>	<u>\$ 2,172</u>	<u>\$ 38,687</u>	<u>\$ 3,135</u>	<u>\$ 3</u>	<u>\$ 579,245</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,558	\$ -	\$ -	\$ -	\$ 2,311
-	89,750	-	-	-	-	-	-	89,750
-	-	-	-	-	76,882	-	-	76,882
<u>\$ -</u>	<u>\$ 89,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,558</u>	<u>\$ 76,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 168,943</u>
<u>\$ 21,649</u>	<u>\$ (79,398)</u>	<u>\$ 21,448</u>	<u>\$ 11,411</u>	<u>\$ 614</u>	<u>\$ (38,195)</u>	<u>\$ 3,135</u>	<u>\$ 3</u>	<u>\$ 410,302</u>
\$ -	\$ 19,323	\$ 17,419	\$ 4,000	\$ -	\$ 270,432	\$ -	\$ -	\$ 311,374
(12,947)	-	-	-	-	(79,986)	-	(3)	(538,170)
<u>\$ (12,947)</u>	<u>\$ 19,323</u>	<u>\$ 17,419</u>	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ 190,446</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ (226,796)</u>
\$ 8,702	\$ (60,075)	\$ 38,867	\$ 15,411	\$ 614	\$ 152,251	\$ 3,135	\$ -	\$ 183,506
36,364	103,858	99,477	326,364	5,207	90,890	88,384	300	945,643
<u>\$ 45,066</u>	<u>\$ 43,783</u>	<u>\$ 138,344</u>	<u>\$ 341,775</u>	<u>\$ 5,821</u>	<u>\$ 243,141</u>	<u>\$ 91,519</u>	<u>\$ 300</u>	<u>\$ 1,129,149</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,964
45,066	43,783	138,344	341,775	5,821	-	-	-	782,225
-	-	-	-	-	243,141	-	-	243,141
-	-	-	-	-	-	91,519	300	91,819
<u>\$ 45,066</u>	<u>\$ 43,783</u>	<u>\$ 138,344</u>	<u>\$ 341,775</u>	<u>\$ 5,821</u>	<u>\$ 243,141</u>	<u>\$ 91,519</u>	<u>\$ 300</u>	<u>\$ 1,129,149</u>

City of Osage
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
1999 Street Improvement	06/01/99	3.70-4.45%	\$ 605,000
2002 Street Improvement and Telecom	07/01/02	2.35-4.40%	630,000
Total			
General obligation notes:			
2003 Refunding Capital	11/05/03	1.50%	\$ 845,000
2003 G.O. Capital Loan	12/09/03	3.95%	140,000
Osage Manufacturing	12/01/96	6.625-7.10%	475,000
Total			
Revenue bond:			
1999 Waste Water Treatment	06/01/99	3.70-4.70%	\$ 2,480,000

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 90,000	\$ -	\$ 30,000	\$ 60,000	\$ 3,915	\$ -
490,000	-	65,000	425,000	19,547	-
<u>\$ 580,000</u>	<u>\$ -</u>	<u>\$ 95,000</u>	<u>\$ 485,000</u>	<u>\$ 23,462</u>	<u>\$ -</u>
\$ 220,000	\$ -	\$ 220,000	\$ -	\$ 4,950	\$ -
90,000	-	20,000	70,000	3,358	-
170,000	-	170,000	-	999	-
<u>\$ 480,000</u>	<u>\$ -</u>	<u>\$ 410,000</u>	<u>\$ 70,000</u>	<u>\$ 9,307</u>	<u>\$ -</u>
<u>\$ 1,550,000</u>	<u>\$ -</u>	<u>\$ 165,000</u>	<u>\$ 1,385,000</u>	<u>\$ 69,525</u>	<u>\$ -</u>

City of Osage

Bond and Note Maturities

June 30, 2007

General Obligation Bonds					
Year Ending June 30,	1999 Street Improvement Issued June 1, 1999		2002 Street Improvement and Telecom Issued July 1, 2002		Total
	Interest Rates	Amount	Interest Rates	Amount	
2008	4.35%	30,000	3.65%	65,000	95,000
2009	4.45%	30,000	3.85%	70,000	100,000
2010		-	4.05%	70,000	70,000
2011		-	4.20%	80,000	80,000
2012		-	4.30%	85,000	85,000
2013		-	4.40%	55,000	55,000
Total		<u>\$ 60,000</u>		<u>\$ 425,000</u>	<u>\$ 485,000</u>

General Obligation Notes 2003 G.O. Capital Loan Issued Dec 9, 2003		
Year Ending June 30,	Interest Rates	Amount
2008	3.95%	20,000
2009	3.95%	20,000
2010	3.95%	20,000
2011	3.95%	10,000
Total		<u>\$ 70,000</u>

Revenue Bond 1999 Waste Water Treatment Issued June 1, 1999		
Year Ending June 30,	Interest Rates	Amount
2008	4.30%	170,000
2009	4.35%	180,000
2010	4.40%	190,000
2011	4.50%	195,000
2012	4.60%	205,000
2013	4.65%	215,000
2014	4.70%	230,000
Total		<u>\$ 1,385,000</u>

See accompanying independent auditors' report.

City of Osage

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Four Fiscal Years

	2007	2006	2005	2004
Receipts:				
Property tax	\$ 986,053	\$ 948,134	\$ 924,410	\$ 929,385
Tax increment financing collections	474,680	433,742	400,831	372,459
Other city tax	281,002	245,649	222,034	235,857
Licenses and permits	6,424	6,245	7,033	7,100
Use of money and property	130,831	111,443	61,027	37,216
Intergovernmental	405,980	432,009	645,194	450,225
Charges for service	62,590	62,099	50,849	61,464
Special assessments	302,380	60,104	198,032	95,373
Miscellaneous	153,387	182,660	191,797	203,630
Total	<u>\$ 2,803,327</u>	<u>\$ 2,482,085</u>	<u>\$ 2,701,207</u>	<u>\$ 2,392,709</u>
Disbursements:				
Operating:				
Public safety	\$ 439,691	\$ 451,189	\$ 414,667	\$ 422,064
Public works	399,694	351,946	356,906	458,405
Culture and recreation	422,427	413,221	413,562	380,765
Community and economic development	368,506	125,515	100,988	452,292
General government	217,936	257,076	209,121	190,628
Debt service	539,631	431,218	462,534	1,447,522
Capital projects	285,069	580,557	193,032	404,607
Total	<u>\$ 2,672,954</u>	<u>\$ 2,610,722</u>	<u>\$ 2,150,810</u>	<u>\$ 3,756,283</u>

See accompanying independent auditors' report.

City of Osage

L **INES MURPHY & COMPANY, P.L.C.**

M

Certified Public Accountants

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's primary government financial statements listed in the table of contents, and have issued our report thereon dated December 10, 2007. Our report expressed an unqualified opinion on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Osage's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Osage's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Osage's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Osage's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Osage's primary government financial statements that is more than inconsequential will not be prevented or detected by the City of Osage's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the primary government financial statements will not be prevented or detected by the City of Osage's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osage's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of primary government financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osage and other parties to whom the City of Osage may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Osage during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
December 10, 2007

City of Osage

Schedule of Findings

Year ended June 30, 2007

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the primary government financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

City of Osage

Schedule of Findings

Year ended June 30, 2007

Part II: Findings Related to the Primary Government Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Osage

Schedule of Findings

Year ended June 30, 2007

Part III: Other Findings Related to Statutory Reporting:

- III-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.
- III-B-07 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- III-C-07 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-07 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steven Cooper, Mayor, owner of Cooper Chrysler	Auto Repairs	\$ 1,253
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating.	Maintenance and small items	3,338
Cathy Penney, City Clerk, wife of Mark Penney, contractor.	Lawn work	119
Cathy Penney, City Clerk, mother of Scott Penney, contractor.	Lawn work	245
Don Breon, Council Member.	Performed CPR training course for pool employees, Umpired Little League games	706
John Michels, Park Commissioner.	Umpired Little League games	56

In accordance with Chapter 362.5(10) of the Code of Iowa, the second amount appears to represent a conflict of interest. The amount is over \$1,500 and bids were not taken. The rest of the transactions do not appear to represent a conflict of interest since the amounts were less than \$1,500.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

City of Osage

Schedule of Findings

Year ended June 30, 2007

- III-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-07 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.
- III-H-07 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.
- III-I-07 Financial Condition - There were no funds which had deficit balances at June 30, 2007.